All homework other than graphs should be typed.

Homework Chapter 1b- p1-8 . Due Wednesday

1. What do economists mean when they say that “there is no free lunch”? Give another example to which this statement applies.  **There is a cost to everything, including time. Time is one of many finite resources.**

2. (Consider This) How can the economic perspective help us understand the behavior of fast-food consumers? Explain several insights it provides about customer behavior. **If there are multiple cashiers people will move to the line that is shortest (just stop in at Costco on the weekend). There is a constant marginal cost vs. marginal benefit analysis. Of course while at Costco you can get an idea of how long someone might take at the cashier, at McDonalds you don’t know if the person in front of you is ordering for one or 100!**

3. Distinguish between microeconomics and macroeconomics by giving 3 examples of a situation that involves microeconomics and 3 examples that involve macroeconomics

Micro-

1.Your decision to take this class

2. Gas prices rose as the recession ended

3. Tesla creates a line of SUVs

Macro

1. Consumer sentiment declined after the 2nd month in a row of rising unemployment
2. GDP (Gross Domesitc Product) rose last quarter at an annualized rate of 3.7%
3. Prices of durable goods where a major factor in the announced inflation number
4. Economics is often criticized for its lack of reliability. Discuss this using the terms ceteris paribus, positive statements and normative statements.

Economics is a social science. As with all science experiments we use the scientific method. This includes making a hypothesis and then creating an environment to test the hypothesis. The environment should be controlled so that there is one dependent and one independent variable. In the social sciences you can not control the environment. Nonetheless, Economists develop theories and models and do their best to test them. By assuming that all the other variables that might affect the experiment are unchanged (ceteris parabus) we test for the relationship between the independent and dependent variable. Social sciences have difficulty replicating experiments because in the real world, variables other than the dependent and independent are constantly changing.

Example: Economics assumes that there is a relationship between price and quantity. As the price rises, ceteris paribus, quantity demanded decreases. However, if prices rise and the quality of the good increases, consumers may buy just as much or more.

Normative Statement: Factual statement

Positive Statement: Prescriptive

Positve statements based upon factual information, ie. the rate of unemployment is 5.7% or there five major airlines in the commercial airline industry.. Normative statements use economic theories to prescribe a policy, ie. The rate of unemployment is too high and so the Federal Reserve should continue quantitative easing” or, there are too few airlines in commercial aviation and that’s lead to price increases for the consumer.

Because Economics relies on ceteris paribus to develop theories but loads of variables exist in the real world, while positive statements are not debatable normative statements often depend on which set of variables an economist assumes are relevant.

Homework 1c, chapter1 Due Friday rest of Chapter 1

1. To do in Class
   1. Create a budget line, for 2 goods; choose your goods and income. Include the price of each good and state your income. Determine the slope of the curve you drew. State the relationship between the slope and the quantities on the Y and X axis.
   2. Draw a line parallel to your initial budget line that lies further from the origin. What’s the slope? What could explain the shift from the original curve to the new one?
   3. Keeping one price static and halving the other price, rotate the budget line so that the intercept on the X axis remains the same but the intercept on the Y axis changes. How did this change your potential purchases of each product
2. (Consider This) Both Oprah Winfrey or Bill Gates dropped out of college, discuss the economic justification for their respective decisions? Do you think this might apply to you?

OPP. COST!

1. “The two cornerstones of economics are the scarcity of resources and the multiplicity of wants. True economy consists of deriving maximum want satisfaction from available resources.” Explain.

The first statement refers to the basic economic problem: that society’s wants are unlimited relative to the limited supply of productive resources. The second part of the statement refers to the concept of efficiency, both allocative and productive. Since resources are scarce, it is desirable to achieve the most output from those available. Otherwise we waste resources and will not satisfy as many wants as we could from the resources that we have available, which would mean not achieving productive efficiency. Allocative efficiency means the maximum satisfaction of wants with these resources

1. 1. What does a Production Possibility Curve measure?
   2. Why does money play no part in the determination of the PPC?
   3. Compare the slope of a PPC that has a straight line with a PPC that is curved. What does the slope measure. What does a straight line PPC imply? What does a curved line PPC imply?
   4. What would be the impact to the PPC if the natural resources of a country doubles?